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NATIONAL DAIRY PRODUCTS CORPORATION

THE MARK OF SEALTEST-SUPERVISED PRODUCTS

Annual Report

1941

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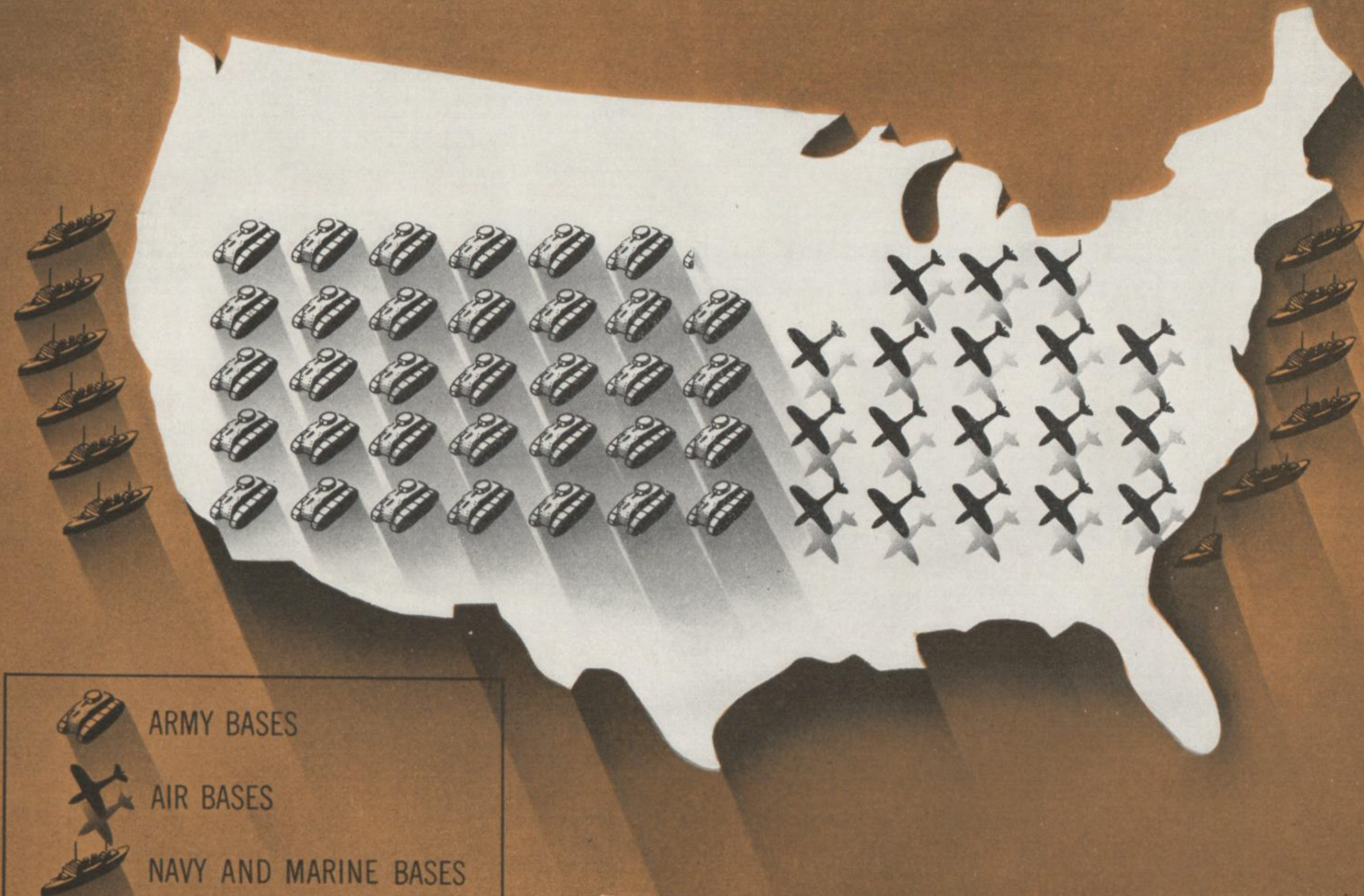
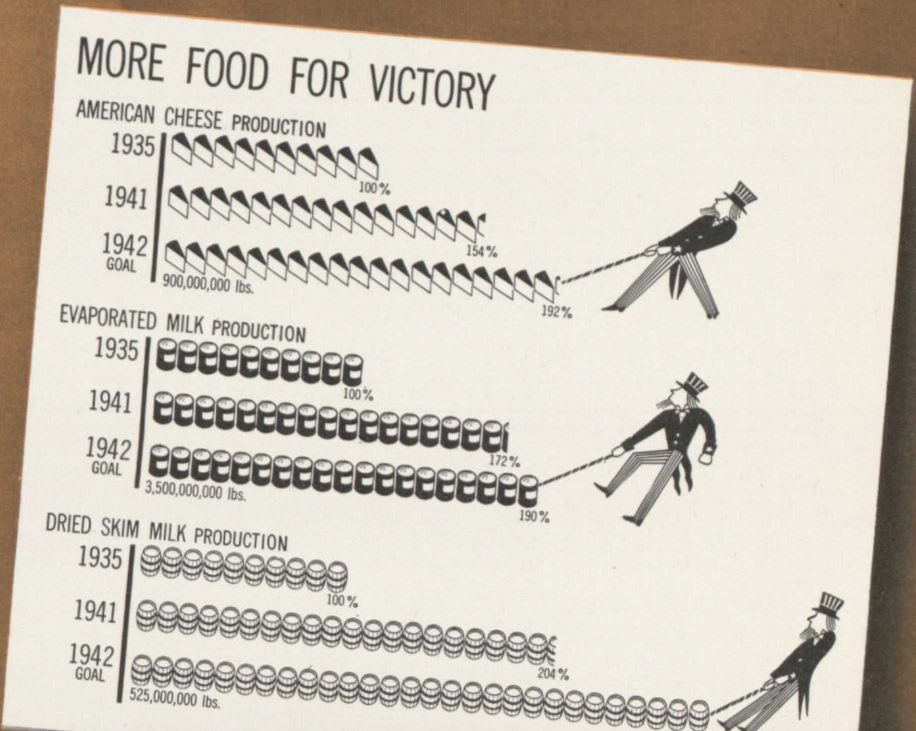
CORP. FILE

NATIONAL DAIRY IS SERVING....


ARMY BASES
AIR BASES
NAVY AND MARINE BASES
Each symbol represents 5 bases
20 BASES OUTSIDE U.S. ALSO SERVED

During 1941, National Dairy Products Corporation's divisions delivered milk, cheese, ice cream and other food products to more than 330 army, air, navy and marine bases. In addition, thousands of tons of products were supplied the Government for shipment to our allies.

National Dairy's entire resources and experience are centered on one task: helping to provide America with the food needed for strength at home and victory abroad. That the task is no small one is shown by the chart at the right. Government production goals for the dairy industry in 1942 call for still further increases over even 1941's record-high output of milk and dairy products.



DIRECTORS

F. J. ANDRE
President, Sheffield Farms Company, Inc., New York

F. J. BAHL
President, The Tri-State Butter Company, Cincinnati

EDGAR N. BRAWNER
President, Chestnut Farms-Chevy Chase Dairy Company, Washington, D. C.

HENRY W. BREYER, JR.
Director, Breyer Ice Cream Company, Philadelphia

FREDERICK J. BRIDGES
President, Hydrox Corporation, Chicago

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CHARLES C. CABOT
Attorney, Boston

E. J. FINNERAN
Director of Sales and Advertising

BYRON C. FOY
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JOSEPH GILFILLAN
Attorney, Philadelphia

ROBERT S. GORDON
General Counsel

B. S. HALSEY
Vice-President, Sheffield Farms Company, Inc., New York

H. C. HORNEMAN
President, Sugar Creek Creamery Company, Danville

VERNON F. HOVEY
President, General Ice Cream Corporation, Schenectady

J. L. KRAFT
President, Kraft Cheese Company, Chicago

JOHN H. KRAFT
Executive Vice-President, Kraft Cheese Company, Chicago

B. M. LIDE, JR.
President, St. Louis Dairy Company, St. Louis

E. J. MATHER
President, Southern Dairies, Inc., Washington, D. C.

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Chairman of the Board

P. P. MILLER
Vice-President, General Ice Cream Corporation, Schenectady

EDWARD E. RIECK
Chairman of Board, Rieck-McJunkin Dairy Company, Pittsburgh

WILBUR S. SCOTT
Philadelphia

HENDERSON SUPPLEE, JR.
President, Supplee-Wills-Jones Milk Company, Philadelphia

L. A. VAN BOMEL
President

H. C. VON ELM
Vice-Chairman of the Board
**Manufacturers Trust Company, New York*

SIDNEY J. WEINBERG
Banker, New York

H. BURTON WILKERSON
President, Nashville Pure Milk Company, Nashville

Companies named above are subsidiaries of National Dairy Products Corporation, except those marked with an asterisk.

OFFICERS

Thos. H. McInnerney
Chairman of the Board

L. A. Van Bomel
President

Frederick J. Bridges
Vice-President

James Bruce
Vice-President

Vernon F. Hovey
Vice-President

A. Boag, Jr.
Comptroller and Secretary

George H. Rutherford
Treasurer

G. W. McGhee
Assistant Secretary

O. J. Martin
Assistant Secretary

E. J. Finneran
Director of Sales and Advertising

Robert S. Gordon
General Counsel

EXECUTIVE COMMITTEE

Thos. H. McInnerney

F. J. Andre

Vernon F. Hovey

J. L. Kraft

L. A. Van Bomel

Transfer Agent
Manufacturers Trust Company
New York, N. Y.

Registrar
The Chase National Bank
of the City of New York
New York, N. Y.

Executive Offices
230 Park Avenue
New York, N. Y.

Counsel
Sullivan & Cromwell

Auditors
Arthur Andersen & Co.

Comparative Summary

(EXCLUDING FOREIGN SUBSIDIARIES)

	1941	1940
Sales	$431,049,000	$347,410,000
Material Costs	249,284,000	185,104,000
Payrolls	72,991,000	68,098,000
Direct Federal, State and Local Taxes	15,696,000	9,984,000
Provision for possible decline in inventory prices	3,600,000	None
Net Profit transferred to Earned Surplus	$ 12,334,000	$ 11,094,000
Average Number of Employees	36,697	35,565
Common Stockholders, December 31	68,820	69,264

To the Stockholders:

American business is operating in a pattern for victory laid out by the Federal government. Part of that pattern calls for turning out thousands of planes, tanks, ships, guns and other war materials. Another part calls for the production of thousands of tons of milk, dairy products and other foods.

Foods as well as planes and tanks are vital, for the effectiveness of armed forces depends to a great extent upon good nutrition. In "total war", moreover, the health and morale of every civilian worker play an extremely important part in the drive for victory.

A clear task has been set for America's food industries: to provide not only for our own workers and fighters, but also an excess for our allies in all parts of the world.

The challenge to achieve has been particularly strong for the American dairy industry, which produces highly essential foods. That the dairy industry has responded is shown by the record for 1941:

> More milk produced on farms than ever before . . .
>
> The highest levels of domestic consumption of milk and dairy products in the nation's history . . .
>
> Larger exports of dairy products than in the previous ten years combined.

To do its share to meet these demands, National Dairy in 1941 manufactured and distributed the largest volume of foodstuffs in its history. We sold the equivalent of more than 5,127,000,000 quarts of milk—either as fresh milk and cream, or in the form of dairy products —plus 410,000,000 pounds of other foods.

Milk and ice cream by the millions of gallons were supplied to over 330 air bases, army camps, forts, naval training stations, and other military establishments. Large quantities of cheese, evaporated milk and other dairy products were delivered to the government—for consumption at home or for shipment abroad under lend-lease agreements. Still greater quantities of dairy products must and will be supplied this year.

DOLLAR SALES AND SELLING PRICES

Our dollar sales in 1941 reached an all-time high, totaling $431,049,000 against $347,410,000 in 1940, an increase of $83,639,000 or 24%. Percentage increases in dollar sales by major classifications of products in 1941 were as follows:

	PERCENT INCREASE OVER 1940
Milk and Cream	9.5%
Butter	25.6
Cheese	38.3
Ice Cream	27.1
Miscellaneous products	32.6

The gain in sales of "miscellaneous products" is especially noteworthy. This group includes products such as evaporated and condensed milk, caramels, "Parkay", skim milk, buttermilk and whey products. Among the most substantial items in this classification, however, are non-milk products such as vegetable juices, frozen foods, canned eggs, "Miracle Whip", mayonnaise and other salad products.

In 1930, miscellaneous products accounted for less than 11½% of dollar sales. In 1941, this classification brought in over 20½% of sales receipts. We have endeavored to diversify your company's operations since 1930 so as to broaden the base of sales income, thereby expanding services rendered and securing a wider source of earning power to safeguard stockholders' investment and employees' job security.

Rising costs of materials, supplies and services, as well as higher wages and taxes, necessitated increases in your company's selling prices last year. Despite these increases, however, *our 1941 selling prices were substantially below those prevailing in 1930, our earliest comparable year.* A representative "market basket" of National Dairy's major milk products which sold for $1 in 1930 sold for only 91 cents in 1941.

Trends in selling prices and sales, as well as other facts mentioned in this letter, are portrayed graphically in pictorial charts to be found on the center pages of this report.

EARNINGS IN 1941

After deducting all expenses and provisions for taxes and for possible decline in inventory prices, your company's earnings during 1941 amounted to $12,334,000, and were equivalent to $1.97 on each share of common stock. In 1940, earnings were $1.66 per share on the common stock.

To produce certain types of cheese our Kraft Cheese division must cure and age large stocks over a period of months. These cheese stocks regularly constitute the major item of inventories shown in our consolidated balance sheet. During the year 1941, the prices Kraft paid for bulk cheese advanced to an abnormally high level due primarily to the desire of the Federal government to stimulate production. On the basis of past experience, a decline in the price level usually follows a pronounced rise, particularly so when the rise occurs in a war period. In anticipation of the losses which may be sustained in the disposal of cheese inventories during such a decline, your management deemed it conservative practice to provide a reserve therefor out of 1941 profits in the amount of $3,600,000, this amount being determined in the light of past experience and the current price level of cheese.

No reserve was provided with respect to the inventory of other items included in the consolidated balance sheet, despite the general rise in prices, because these inventories are rapidly used up and replaced in the ordinary course of business and involve no ageing or curing process.

Because of higher costs of operation, increased taxes and the necessity of providing the reserve described above, net profit reported for the year 1941 amounted to $2\frac{9}{10}$ cents on each dollar of sales; in 1940 the profit was $3\frac{2}{10}$ cents per dollar of sales.

Low profit margins characterize most branches of the dairy industry. The following facts speak for themselves. During 1941, the average American consumed about 163 quarts of milk and cream, 16⅗ pounds of butter, 5¾ pounds of cheese, 18⅗ pounds of evaporated and condensed milk and 2¾ gallons of ice cream. If an individual had purchased the above quantities of products from us, our total net profit on his annual consumption would have been less than 70 cents—or about one-fifth of a cent a day.

When a business organization can serve millions of consumers with products it manufactures from raw milk purchased from thousands of farmers, provide employment for thousands of workers, and afford an avenue of productive investment for almost 70,000 stockholders—and do all this at such an extremely low rate of return—then that business may with justice feel that it is acquitting its responsibilities to all sections of the population in the best tradition of American enterprise.

MATERIAL COSTS

Contrasting with $12,334,000 of earnings are the $249,284,000 which your company paid farmers, farm cooperatives and other suppliers for milk, dairy products and other materials last year. Reflecting the broad rise in commodity prices occurring during the year, your company's material costs took about 58 cents out of each dollar of sales income in 1941, compared with a little less than 53½ cents in 1940.

EMPLOYMENT AND WAGES

To produce and distribute the greatly increased volume of products represented by 1941 sales, National Dairy's average number of employees reached a new high mark—36,697 men and women. Total payrolls exceeded $72,900,000.

Since October 1940, more than 1,000 National Dairy employees have joined the nation's armed forces.

NATIONAL DAIRY'S TAX EXPENSE

In 1941, our tax expense amounted to 56% of consolidated earnings before deducting such taxes—the largest percentage in your company's history. In 1940 the comparable figure was 47% and in 1930 it was 18%. For 1941 we shall have paid $4,893,000 to state and local tax agencies, and $10,803,000 to the Federal government—a total of $15,696,000.

Taxes will probably absorb even a larger percentage of income in 1942. One must not assume, however, that taxes will always remain at these high levels. Today's conditions are abnormal. To carry on the war our nation needs more money for military equipment than has ever been discussed, much less obtained, in times past. In the final analysis, these war costs must be met out of taxes. We shall pay our share of taxes willingly, for in so doing we are helping to gain the victory that will safeguard the freedom of action and freedom of thought which are fundamental to our American way of living.

DIVIDENDS AND CASH RESOURCES

The amount of dividends a company can pay depends on two main factors: earnings and cash available for distribution. Earnings alone do not guarantee that a business will have sufficient cash for distribution as dividends.

In times of increasing sales volume and increasing prices, more working capital is required in the form of inventories and receivables. During 1941, in addition to expending more than our depreciation provision for ordinary additions and replacements to plant and equipment, we also spent $5,641,000 for plant and equipment in partial anticipation of our 1942 needs.

All of these requirements, being in addition to our normal needs, resulted in such demands on our cash that we were not only unable to increase our rate of dividends in 1941, but were also obliged to incur temporary loans. These loans totaled $13,475,000 at the end of the year. Since then, however, we have repaid $2,700,000 of these loans. On page 14 there is shown a summary of the source and disposition of our cash funds in 1941.

"ARALAC" OPERATIONS

Additional progress was made during 1941 in the sale of casein fiber produced by our Aralac, Inc. division. The great majority of fur-felt hats made in America today contains some proportion of "Aralac" fiber. We are also meeting with considerable success in extending the use of "Aralac" into other textile fields, such as dress goods, sport apparel and suitings. The "Aralac" plant at Taftville, Connecticut, is now producing fiber at the rate of approximately five million pounds annually. As operations expand, this phase of your company's business will provide an increasingly important outlet for the nation's skim milk.

ANTI-TRUST LITIGATION

In the course of its proceedings against numerous industry groups throughout the country which are charged with having entered into agreements with respect to the prices of products purchased or sold, the Department of Justice has obtained indictments under the Federal anti-trust laws against four of our subsidiaries and some of the officers of those subsidiaries.

These indictments claim that restraints have been agreed to affecting the purchase price of foreign-type cheese produced in Wisconsin, the purchase price of New York cheddar cheese bought from manufacturers in northern and western New York State at prices announced by the Cuba and Gouverneur Cheese Exchanges in that state, and the selling price of milk at wholesale to stores in New York City.

The Department of Justice is conducting another grand jury proceeding under the anti-trust laws at Chicago, Illinois, inquiring into the cheese industry, and your company and several of its subsidiaries, together with many other concerns engaged in the cheese business, have submitted records and documents pursuant to subpoena. With respect to the foreign-type cheese indictment, the practices complained of were sponsored by the State of Wisconsin but were discontinued months ago as the result of a proceeding before the Federal Trade Commission. The Cuba and Gouverneur Cheese Exchanges have carried on their functions for many, many years, as has the Wisconsin Cheese Exchange which is being examined into by the Chicago grand jury. If it develops that these exchanges are transgressing the anti-trust laws, Kraft Cheese Company and its subsidiaries will make other arrangements for the purchases of the types of cheese involved in these proceedings. As for the New York City wholesale milk market, we are informed by Sheffield Farms Company, Inc. that the charges are unfounded and will be vigorously resisted.

EFFECTS OF THE WAR AT HOME

Your company, in common with most American industry, will probably find it increasingly difficult to obtain certain supplies and equipment as this year progresses. Thus far we have enjoyed a relatively favorable position as we are producers of essential foods.

Available supplies of sugar have been curtailed moderately, but to date we have been able to obtain an adequate supply of other sweetening agents.

The problem of tire replacements for our delivery trucks is more pressing. Our various divisions are inaugurating many innovations in delivery methods to conserve tires. Sunday deliveries and special deliveries have been eliminated in many of our markets. In some cities, every-other-day delivery is being tried. Routes have generally been rearranged to obtain maximum saving in tire mileage, with some routes being eliminated altogether.

All of these changes are too recent to permit any accurate appraisal of how much rubber can be saved. We are reasonably certain, however, that we can satisfactorily adjust our delivery system to cope with the problems created by the tire shortage. We expect to be required to make many other changes in processing and operating methods in furtherance of the nation's military plans.

THE GOVERNMENT'S PRODUCTION GOALS

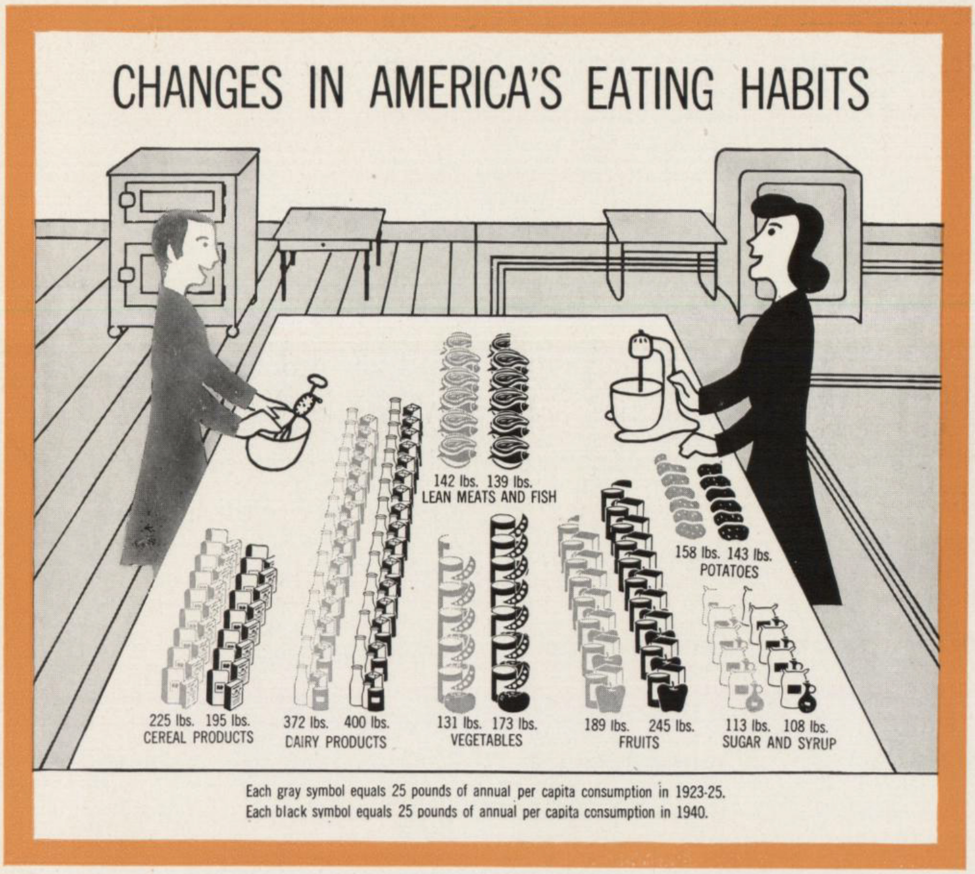
The 1942 production goals set for the dairy industry by the U. S. Department of Agriculture—certain of which are shown pictorially in the front of this report—call for the largest output in the country's history. During this year, the Government seeks an 8% increase in farm milk production. This larger supply is needed to provide for production increases of 24% for American cheese, 11% for evaporated milk, and 37% for dried skim milk.

The higher production is designed to provide for greater use of milk and milk products at home—both by civilians and armed forces—and to supply dairy products for shipment to Great Britain and other nations under lend-lease agreements. These goals will be met.

WAR AND THE DAIRY FARMER

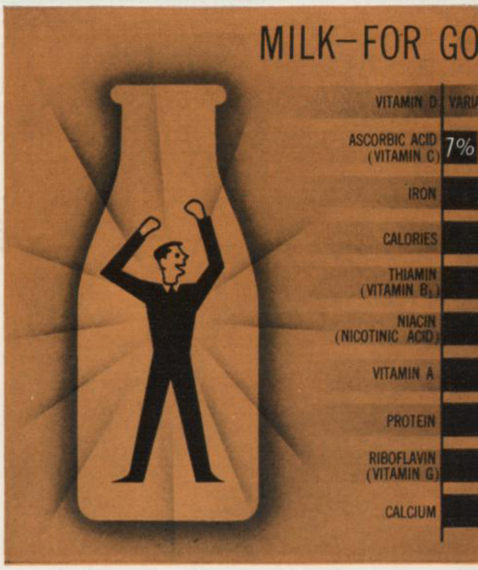
It will be a major task for farmers to produce the 9½ billion additional pounds of milk required by the 8% increase which the govern-

Since 1923-25, a steadily increasing volume of milk production, sold at relatively higher farm prices, has maintained American dairy farmers' cash income at a higher level than that averaged by farmers producing other types of agricultural commodities. Milk brought farmers a total of $1,860,000,000 in 1941—an all-time high. Accounting for almost 16c out of each dollar of farm cash receipts, milk is the largest single source of income for the American farmer.


CHANGES IN AMERICA'S EATING HABITS

Each gray symbol equals 25 pounds of annual per capita consumption in 1923-25.
Each black symbol equals 25 pounds of annual per capita consumption in 1940.

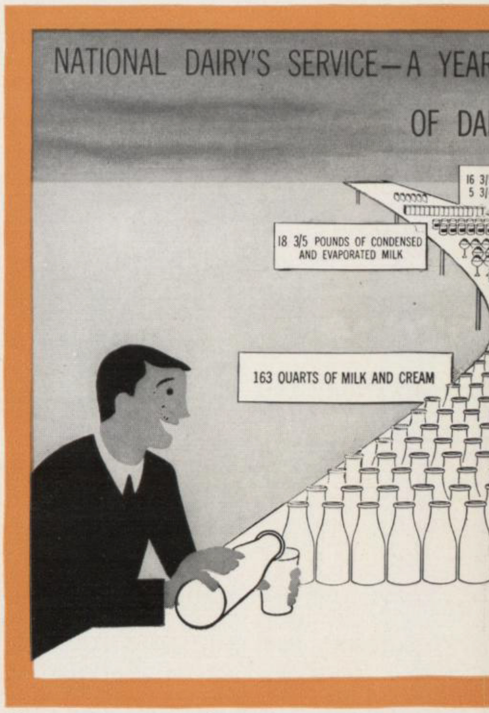
Americans have made pronounced changes in their diet during the past two decades. Among the major foods, the most outstanding increases in per capita consumption have been 32% for vegetables, 30% for fruits, and 8% for milk and dairy products.


MILK—FOR GO

A survey made after the 1940 Annual Report was issued indicated that our stockholders welcomed the use of graphic charts to illustrate facts concerning their company's business, and wished that practice continued. Accordingly, we are presenting graphically certain data on the dairy industry and National Dairy's operations in 1941.

It was a good year for the American dairy farmer. Higher milk production, sold at higher farm prices, brought in more cash to dairy farmers than ever before—$1,860,000,000. Milk maintained its long-held position as the leading American farm commodity.

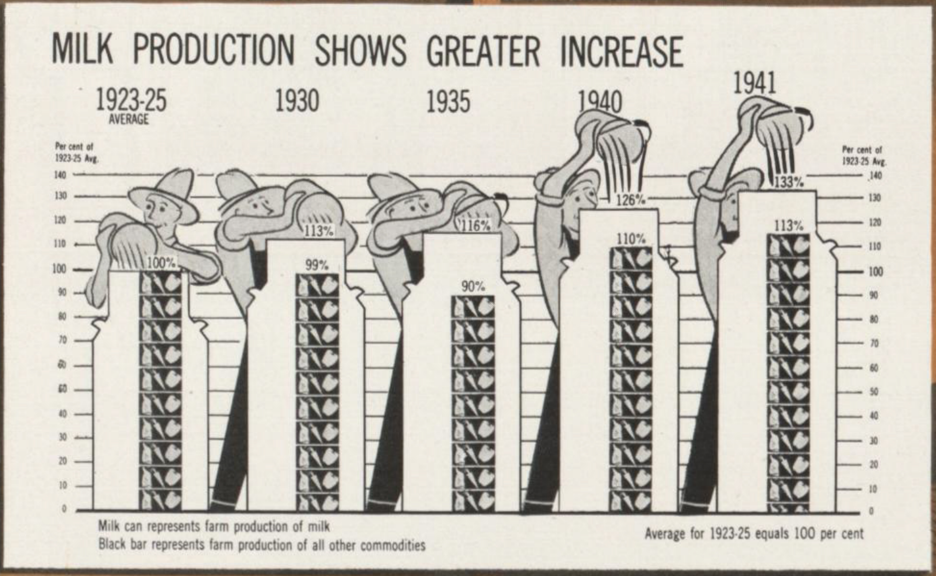
The consumption of milk and milk products also reached new heights, continuing a trend toward larger use of dairy products in the national diet. Milk is an especially rich source of vital nutrients. Based on average wage rates in 25 leading American industries, a factory worker could buy more milk with an hour's wages in 1941 than he could 15 or 20 years ago. National Dairy's total profit on the quanti-


NATIONAL DAIRY'S SERVICE—A YEAR
OF DA

Shown above are the dairy products consum
1941. If a person had purchased these quantiti
entire profit on his annual consumption woul

GRAPHIC FACTS ABOUT THE DAIRY INDUS

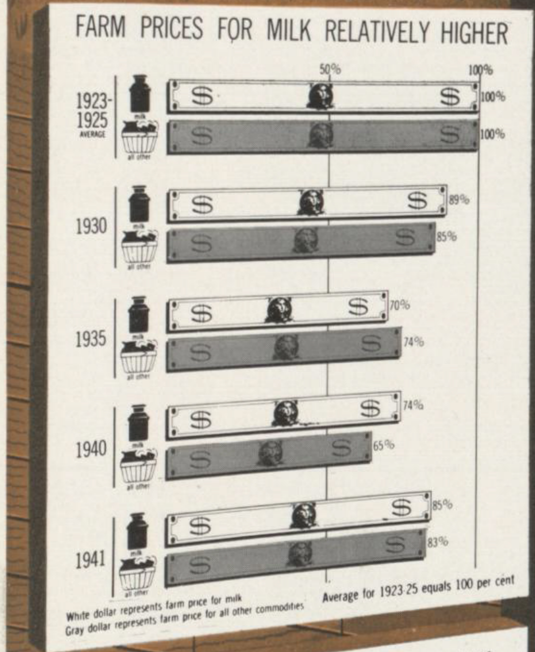
DAIRYING'S GOOD FARM RECORD



MILK PRODUCTION SHOWS GREATER INCREASE

Milk can represents farm production of milk
Black bar represents farm production of all other commodities

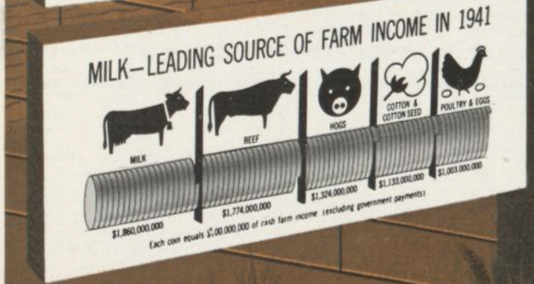
Average for 1923-25 equals 100 per cent



FARM PRICES FOR MILK RELATIVELY HIGHER

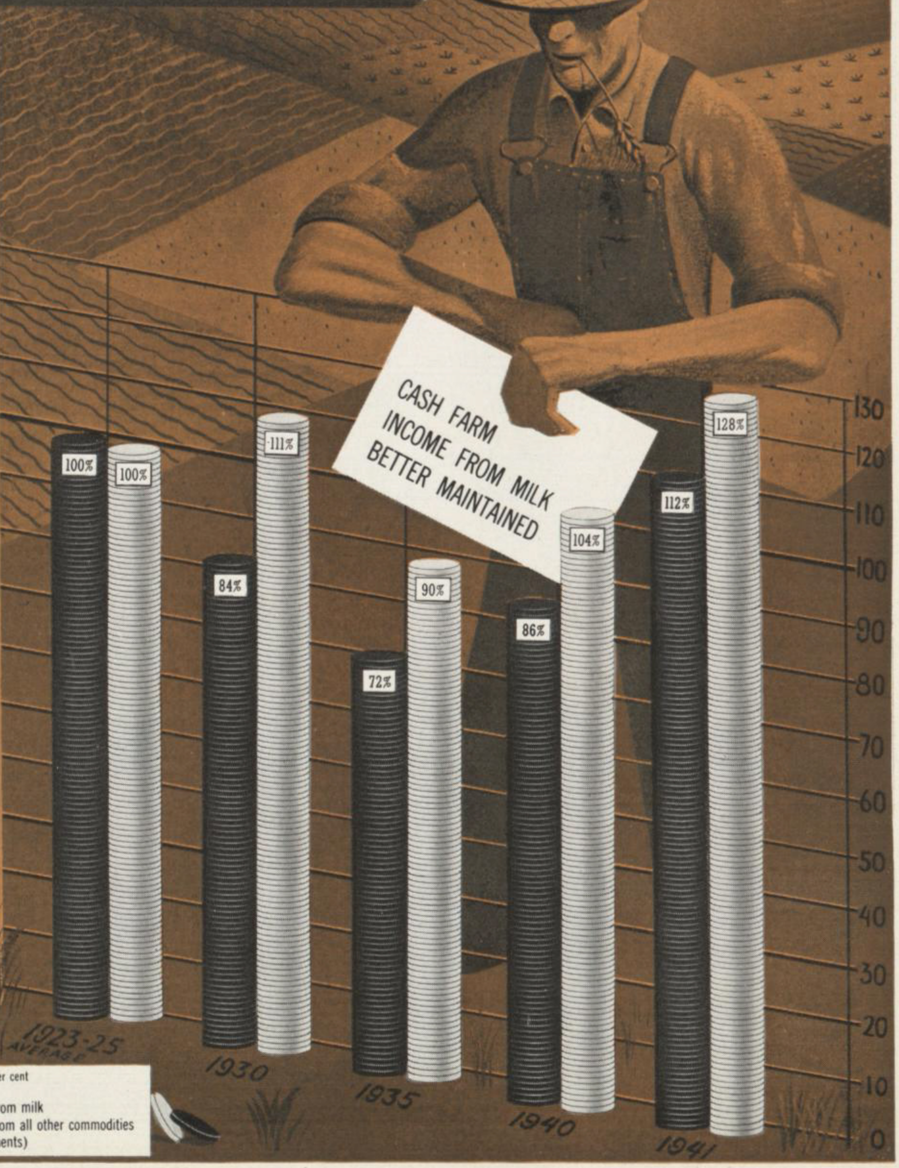
White dollar represents farm price for milk
Gray dollar represents farm price for all other commodities

Average for 1923-25 equals 100 per cent



MILK—LEADING SOURCE OF FARM INCOME IN 1941

Each coin equals $100,000,000 of cash farm income (excluding government payments)



CASH FARM INCOME FROM MILK BETTER MAINTAINED

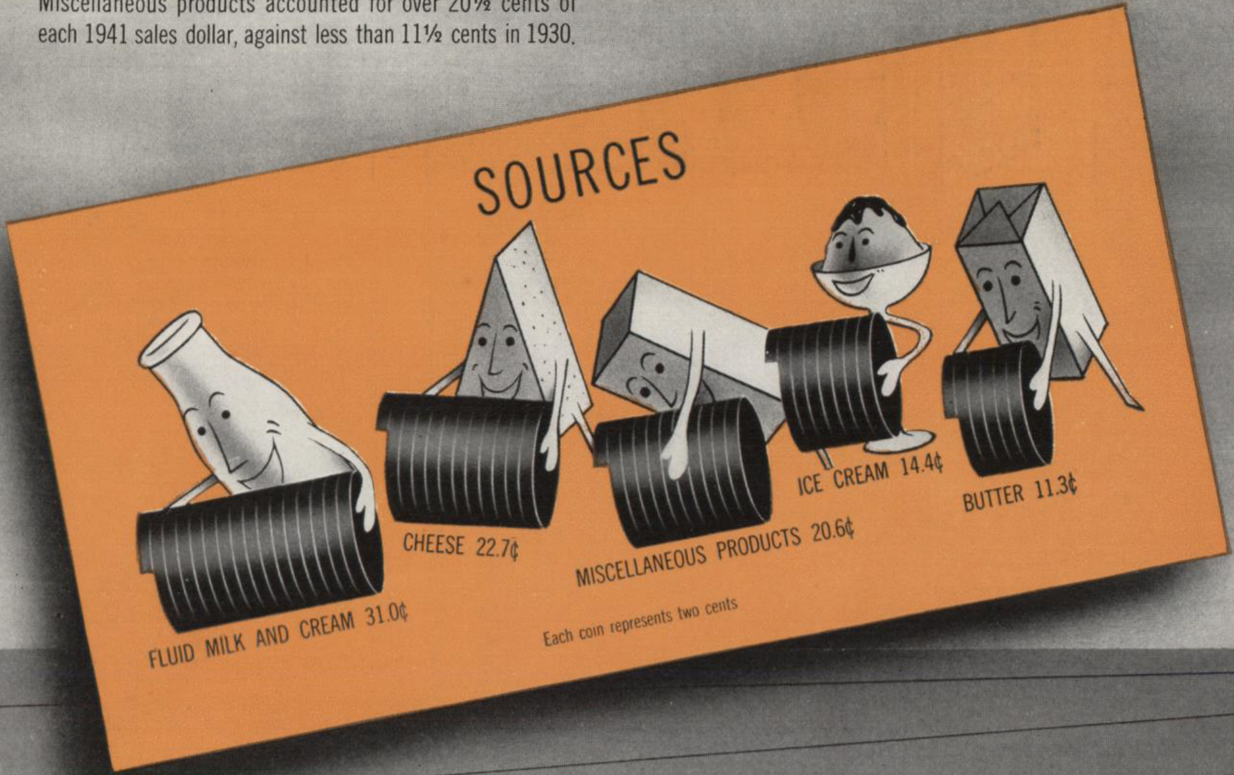
Average for 1923-25 equals 100 per cent

White coin represents cash farm income from milk
Black coin represents cash farm income from all other commodities
(including government payments)

SOURCES AND DISTRIBUTION OF NA

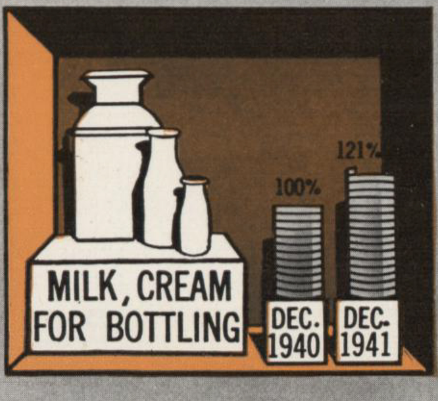
The dominance of fluid milk and cream sales as sources of National Dairy's income has been declining for several years. In 1941 these products brought in 31 cents out of each dollar of sales income, compared with 46 cents in 1930. In contrast, there has been a marked growth in the importance of other classifications, especially the "miscellaneous products" group. Miscellaneous products accounted for over 20½ cents of each 1941 sales dollar, against less than 11½ cents in 1930.

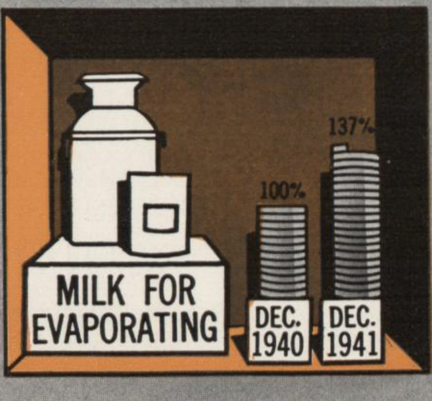
Payments for materials, wages and salaries took 74.7 cents out of each dollar of 1941 sales receipts. From the remainder, 22.4 cents went to cover taxes, reserves and other operating expenses—leaving an equity for the stockholders amounting to 2.9 cents on each dollar of sales income.

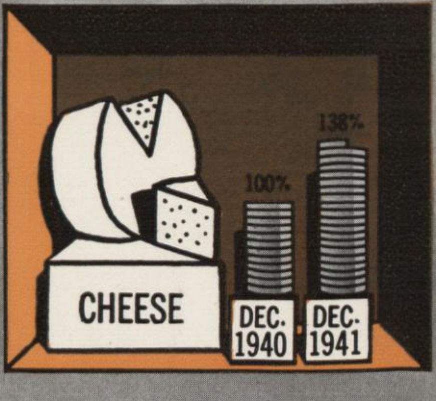


SA

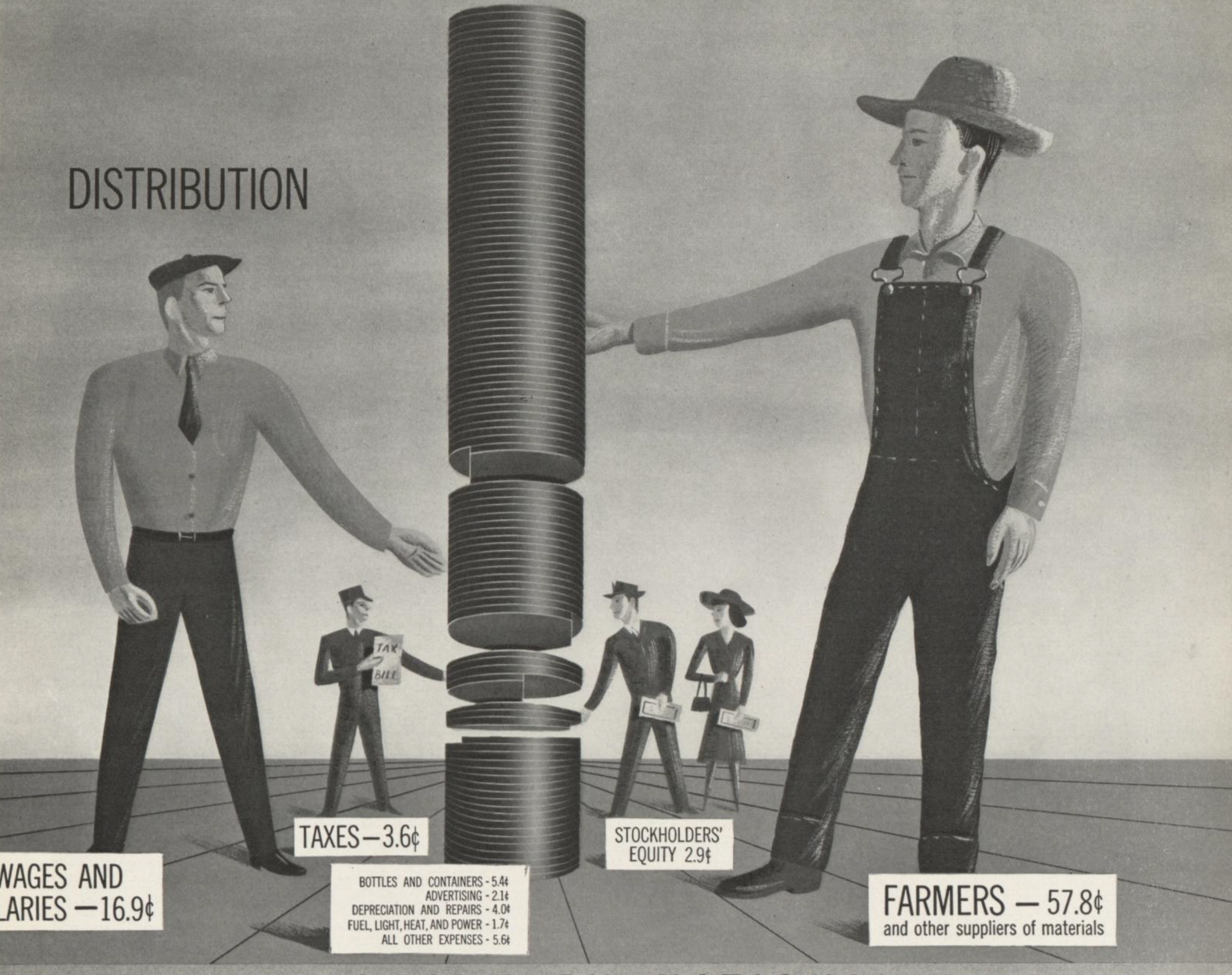
RISING COSTS OF REPRESENTATIVE CO



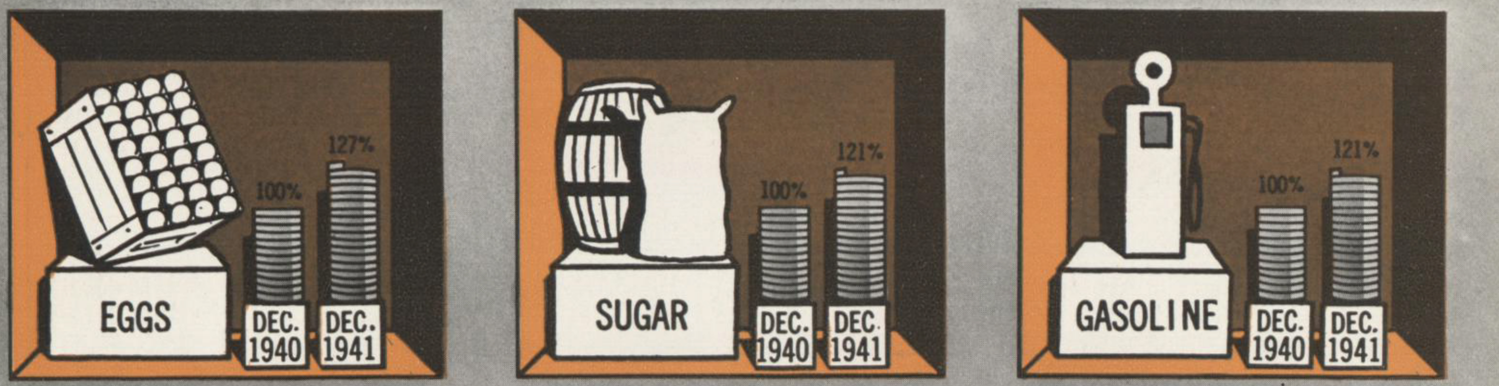




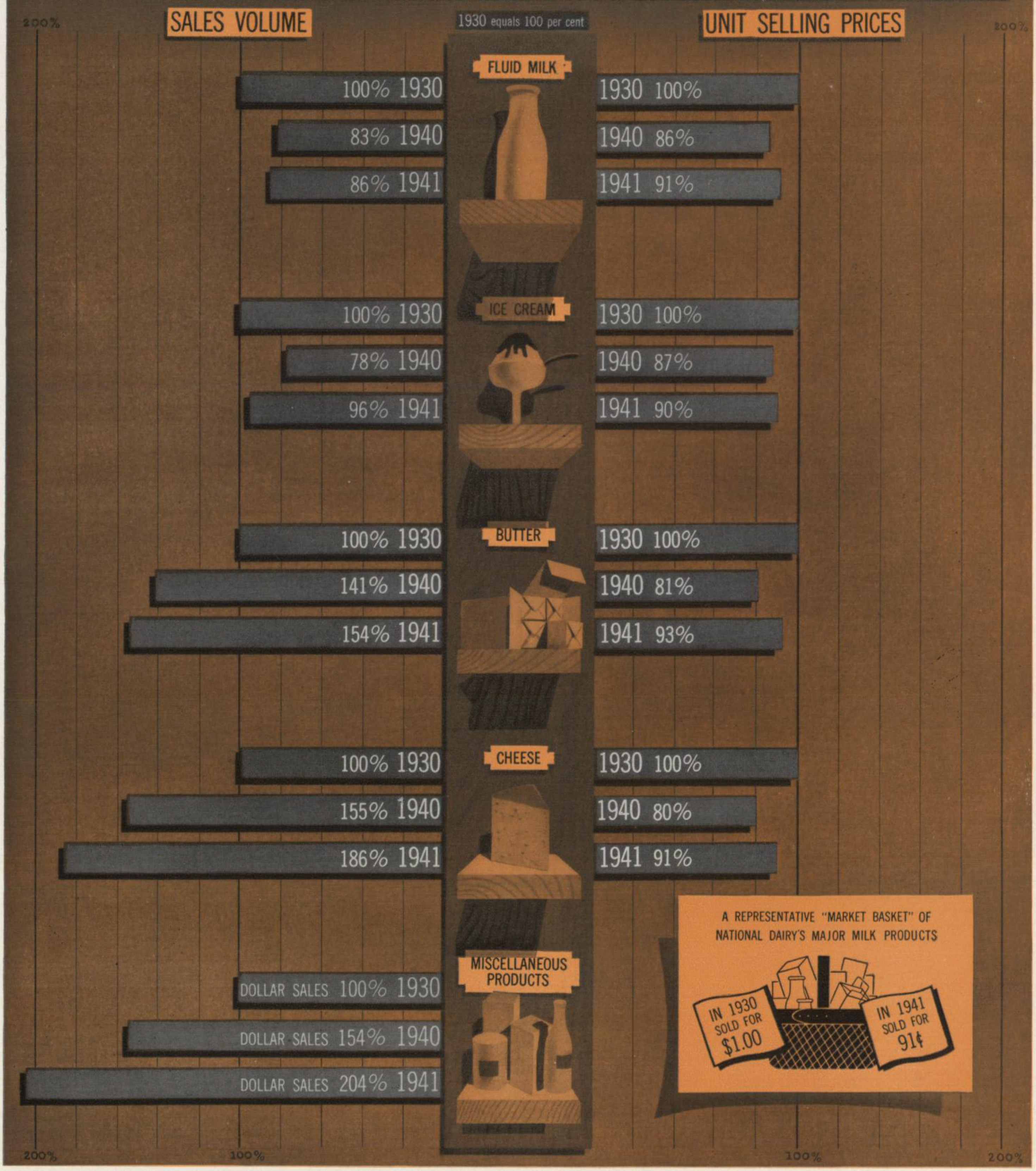
TIONAL DAIRY'S 1941 SALES DOLLAR


DISTRIBUTION
TAX BILL
TAXES—3.6¢
STOCKHOLDERS' EQUITY 2.9¢
WAGES AND
LARIES —16.9¢
BOTTLES AND CONTAINERS - 5.4¢
ADVERTISING - 2.1¢
DEPRECIATION AND REPAIRS - 4.0¢
FUEL, LIGHT, HEAT, AND POWER - 1.7¢
ALL OTHER EXPENSES - 5.6¢
FARMERS — 57.8¢
and other suppliers of materials

MMODITIES BOUGHT BY NATIONAL DAIRY



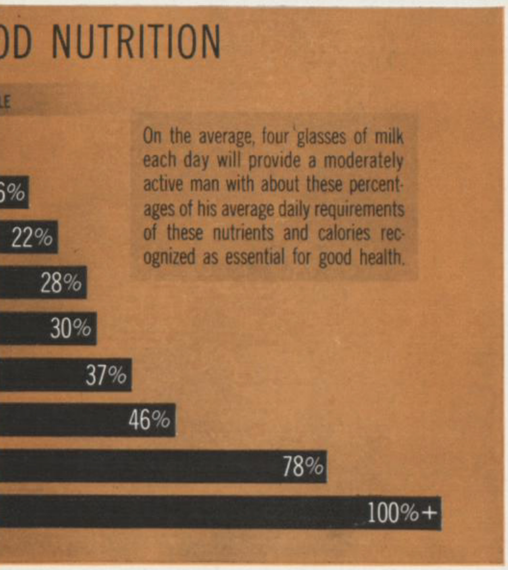
TRENDS IN NATIONAL DAIRY'S SALES VOLUME AND UNIT SELLING PRICES



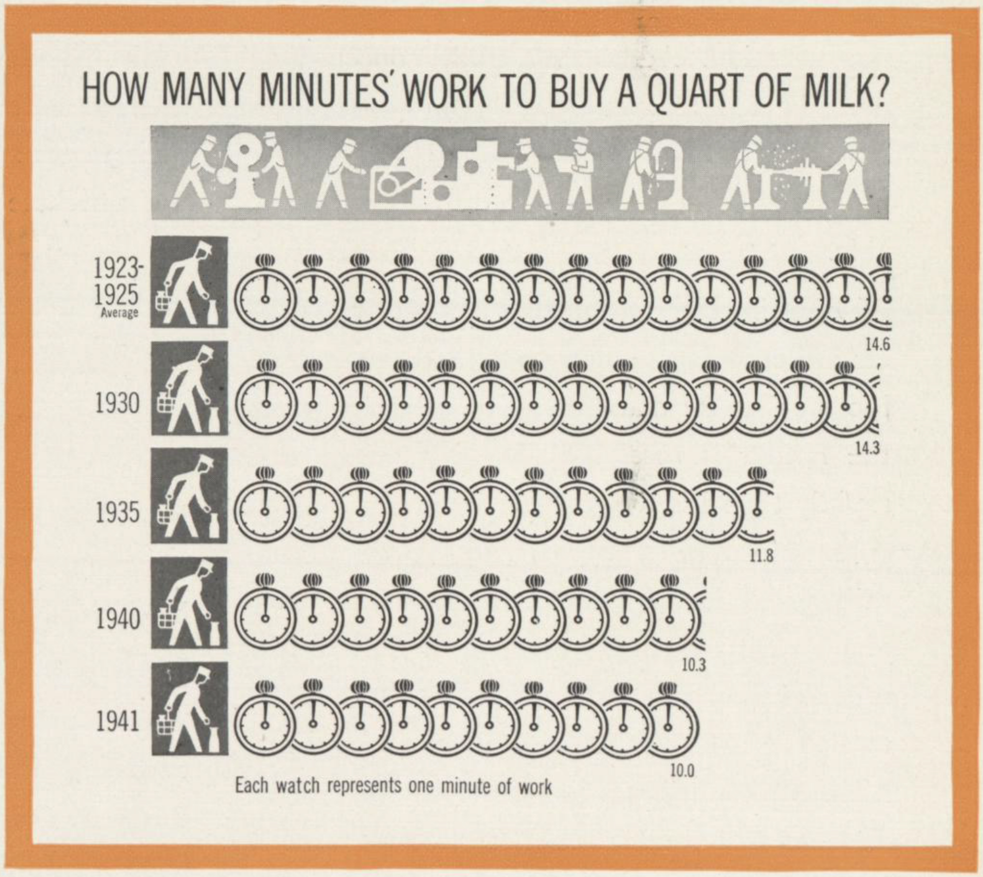
In 1941, sales volume of major products increased over 1940. Compared with 1930 levels, however, the volume of milk and ice cream sold was lower, but butter and cheese marketings were sharply higher. Dollar sales of "miscellaneous products" have more than doubled since 1930. While rising costs in 1941 necessitated advances over 1940 in our unit selling prices, they were still considerably below 1930 prices. A "market basket" of our major milk products which sold for $1 in 1930 sold for only 91c in 1941.

A factory worker could have had a quart of milk delivered to his doorstep during 1941 for the amount of wages he earned in ten minutes. During the 1923-25 period, he had to work more than 14½ minutes to buy a quart of milk.

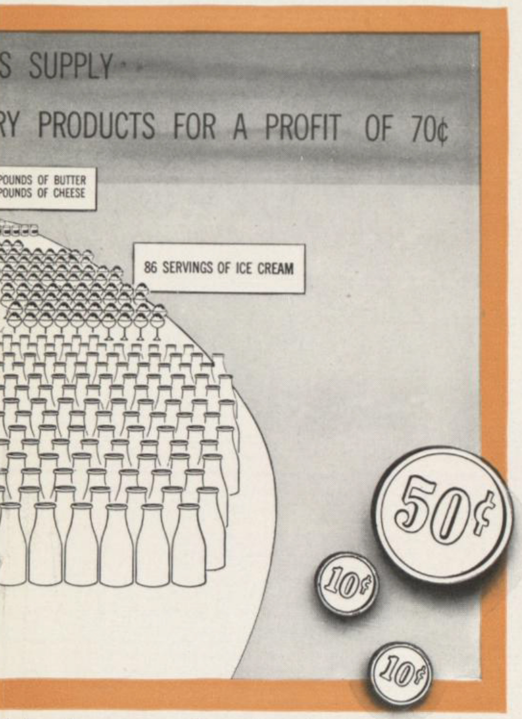
(Based on average wage rates in 25 leading American industries as reported by the National Industrial Conference Board.)


OD NUTRITION

On the average, four glasses of milk each day will provide a moderately active man with about these percentages of his average daily requirements of these nutrients and calories recognized as essential for good health.


HOW MANY MINUTES' WORK TO BUY A QUART OF MILK?

Each watch represents one minute of work



d by the average American in
s of dairy products from us, our
l have been *less than 70 cents.*

ties of milk and dairy products consumed by the average individual in 1941 amounted to less than seventy cents.

Reflecting the rising demand for milk and dairy products for consumption at home as well as for export, National Dairy's sales volume showed marked increases in 1941. Our selling prices, however, were still below the 1930 levels.

While milk and cream still represent our largest source of sales receipts, the relative importance of these products has decreased decidedly in the past decade. On the other hand, a most notable gain has been made in sales of "miscellaneous products", the most substantial items of which are non-milk products.

Almost four-fifths of National Dairy's 1941 sales income went to pay farmers and other suppliers, employees, and tax collectors. The increase in these payments more than offset a reduction in the comparative importance of other major expenses, and resulted in a net equity for stockholders of 2.9 cents on each dollar of sales.

STRY AND NATIONAL DAIRY'S OPERATIONS

ment has set for 1942. Many factors enter into the situation. Additional grain concentrates must be fed to increase milk production. A larger percentage of cows in herds must be milked. Sufficient farm labor must also be available.

Offsetting these problems is the fact that farmers are enjoying higher prices and larger cash income than for many years. To date, the prices the farmer is receiving have advanced more rapidly than his living expenses or the cost of operating supplies he purchases. Average farm milk prices in the United States are currently above parity. U. S. Department of Agriculture statistics show that cash farm income from milk totaled $1,860,000,000 in 1941—an all-time high. Milk continues to be the leading single source of cash for the American farmer, providing almost 16 cents out of each dollar of income received from the sale of all farm commodities.

DEFENSE SECURITIES

No matter what one's occupation or walk of life, there is one way in which every American can help in the war effort: through the purchase of defense stamps and bonds. The need for such purchases cannot be too strongly emphasized.

Our stockholders will be pleased to learn that National Dairy and its divisions have recently instituted plans whereby employees may elect to have stated sums regularly deducted from their wages and salaries, to be applied toward the purchase of defense savings stamps and bonds.

BUSINESS RESPONSIBILITIES TODAY

It is obvious that business operations have become more difficult with our nation at war. It is with particular pleasure, therefore, that your management commends the employees for their hard work and loyalty which contributed so much to our 1941 record.

Your management pledges its earnest efforts to make National Dairy an effective weapon in this war. Our first thought will be to do our share in fulfilling all demands for food for America and for friendly nations abroad. And while so doing, we shall endeavor to keep your company in the best condition to render service when a victorious peace has been won.

By order of the Board of Directors,

L. A. Van Bomel,
President

Thos. H. McInnerney,
Chairman of the Board

New York, N. Y.,
March 12, 1942.

Auditors' Certificate

To the Board of Directors and Stockholders of
National Dairy Products Corporation:

We have examined the consolidated balance sheet of National Dairy Products Corporation (a Delaware corporation) and domestic subsidiary companies as of December 31, 1941, and the statements of consolidated profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We had previously made a similar examination for the year 1940. The procedures followed, with respect to the more important items of the consolidated balance sheet, are commented on broadly in the following four paragraphs.

Cash in banks was checked to confirmations received directly from the depositaries and cash on hand was either counted, traced to subsequent deposits in bank accounts, or, as to working funds, confirmed to us by the custodians. Notes receivable, securities and other evidences of investments or loans, together with collateral therefor, held by the companies were inspected, and those held by depositaries or other custodians were confirmed by direct correspondence. Customers' ledgers and drivers' route books were test-checked and balanced with the general ledger control accounts. Our examination of the receivables included tests of balances by direct communication with the debtors to the extent we considered appropriate in the circumstances. The receivables were reviewed as to collectibility and, in our opinion, the reserves provided are adequate to cover losses anticipated at the date of our examination.

Inventory records and procedures were reviewed and the methods followed by the companies in taking physical inventories were approved by us. We observed the taking of physical inventories by company employees at the more important locations and made test counts of selected items; merchandise in public warehouses was checked by direct confirmations from the warehouses. Clerical accuracy was checked and we satisfied ourselves that the inventories were priced at cost (generally average cost) or market whichever lower by reference to invoices, cost records, trade journals, etc.

Additions to capital assets were reviewed and in connection therewith, we inspected authorizations, contracts, invoices, vouchers, and other data in support of the major items. Changes in the reserves for depreciation were analyzed; calculations of depreciation were reviewed and the amounts charged to profit and loss appeared to be reasonable.

Accounts payable were checked to voucher registers and other detail records, and the payables were confirmed on a test basis by direct correspondence with creditors. Computations of accrued liabilities were verified and supporting data, such as payrolls, tax returns, etc., were reviewed. Shares of capital stock and the amount of debentures outstanding were confirmed to us by direct correspondence with the registrar and trustees. In so far as we could ascertain within the scope of our examination, and as represented to us by the management, all known direct liabilities of the companies have been reflected in the consolidated balance sheet at December 31, 1941.

In our opinion, the accompanying consolidated balance sheet and the related statements of consolidated profit and loss and surplus present fairly the financial position of National Dairy Products Corporation and domestic subsidiary companies consolidated at December 31, 1941, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

New York, N. Y.,
March 9, 1942.

National Dairy Products Corporation

AND DOMESTIC SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 1941		December 31, 1940	
CURRENT ASSETS:				
Cash		$ 15,015,960		$ 16,916,361
Receivables—				
Notes receivable	$ 953,088		$ 609,089	
Accounts receivable	28,018,975		18,845,350	
	$ 28,972,063		$ 19,454,439	
Less—Reserves for doubtful notes and accounts	2,164,289	26,807,774	1,862,822	17,591,617
Inventories of products and materials at cost (generally average cost) or market, whichever lower		47,278,084		29,835,618
Miscellaneous supplies		8,059,661		3,961,890
Cash surrender value of life insurance		405,035		392,512
Total Current Assets		$ 97,566,514		$ 68,697,998
INVESTMENTS AND ADVANCES:				
Domestic subsidiaries not consolidated	$ 236,272		$ 191,272	
Deposits with State Commissions, etc.	817,068		824,698	
Cabinet, fountain and equipment contracts, less reserve	1,362,236		1,318,013	
Miscellaneous investments, less reserve	860,330		1,111,206	
Other notes and accounts receivable, less reserve	1,653,269		1,890,585	
Loans to employees, less reserve	336,023	5,265,198	423,328	5,759,102
FOREIGN SUBSIDIARIES (See page 13):				
Investments in and advances to—				
Canadian subsidiaries	$ 2,598,592		$ 2,573,554	
English, Argentine and Australian subsidiaries	4,274,360		3,944,139	
Continental European subsidiaries	1		386,909	
	$ 6,872,953		$ 6,904,602	
Less—Reserve for foreign investments and advances	1,899,419	4,973,534	1,464,560	5,440,042
PROPERTY, PLANT AND EQUIPMENT (Stated at cost, or as to certain properties at sound values as appraised as of dates of acquisition, plus additions at cost, less retirements and certain adjustments):				
Land	$ 15,353,049		$ 15,452,420	
Buildings, machinery and equipment	136,534,165		129,755,703	
	$151,887,214		$145,208,123	
Less—Reserves for depreciation	51,312,486	100,574,728	50,245,980	94,962,143
PREPAID TAXES, INSURANCE, ETC.		750,034		867,742
GOODWILL		22,059,854		22,059,854
		$231,189,862		$197,786,881

(See Notes to Consolidated Financial Statements, page 12)

National Dairy Products Corporation

AND DOMESTIC SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES	December 31, 1941		December 31, 1940	
CURRENT LIABILITIES:				
Notes payable	$ 13,475,000		None	
Serial Debentures maturing June 1 and December 1 of following year	1,500,000		$ 1,500,000	
Accounts payable	18,425,986		13,427,270	
Accrued liabilities	4,432,686		4,138,133	
Payables to foreign subsidiaries not consolidated	300		322,007	
Reserves for Federal taxes	9,676,616		4,580,519	
Total Current Liabilities		$ 47,510,588		$ 23,967,929
FUNDED DEBT:				
Serial Debentures (maturing semi-annually in the amount of $750,000 on June 1 and December 1 of each year to December 1, 1950, less $1,500,000 maturing within one year and carried under current liabilities above)	$ 12,000,000		$ 13,500,000	
3¼% Debentures due 1960 (semi-annual purchase fund requirements $275,000 (minimum) to December 1, 1950, and $825,000 thereafter to June 1, 1960)	54,450,000	66,450,000	55,000,000	68,500,000
MINORITY STOCKHOLDERS' INTEREST IN SUBSIDIARY COMPANIES		348,911		335,327
RESERVES FOR:				
Insurance	$ 778,074		$ 1,121,225	
Prior years' Federal income taxes and general contingencies	3,223,763		1,877,024	
Possible future inventory adjustments	3,600,000	7,601,837	None	2,998,249
CAPITAL STOCK AND SURPLUS:				
Common stock—				
Authorized—8,000,000 shares without par value				
Issued—6,255,247 shares at stated value	$ 51,266,676		$ 51,266,676	
Capital surplus, per statement attached	2,155,045		2,192,431	
Earned surplus, per statement attached	55,856,805	109,278,526	48,526,269	101,985,376
		$231,189,862		$197,786,881

(See Notes to Consolidated Financial Statements, page 12)

National Dairy Products Corporation

AND DOMESTIC SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS

	Year Ended December 31, 1941		Year Ended December 31, 1940	
Net Sales		$431,049,646		$347,410,481
Cost of Sales and Operating Expenses:				
Cost of products	$310,273,515		$239,090,185	
Delivery expense	53,321,430		52,189,222	
Selling expense	26,597,747		25,921,774	
Administrative and general expense	14,150,988	404,343,680	12,917,655	330,118,836
Operating profit		$ 26,705,966		$ 17,291,645
Other Income:				
Dividends received	$ 25,012		$ 28,235	
Interest received	264,764		239,729	
Purchase discounts	797,013		566,389	
Miscellaneous income	161,356	1,248,145	100,265	934,618
Total		$ 27,954,111		$ 18,226,263
Other Charges:				
Cost of past service retirement annuities (See Note 2)	$ 526,576		None	
Net loss on disposition of capital assets	122,850		$ 401,516	
Dividends on preferred stock of a subsidiary company	None		132,154	
Minority interest in earnings of subsidiaries	43,863		10,901	
Interest other than on funded debt	107,221		91,317	
Miscellaneous charges	290,382	1,090,892	327,769	963,657
Net profit before interest on funded debt and provision for Federal income taxes		$ 26,863,219		$ 17,262,606
Interest on Funded Debt		1,978,485		2,104,400
Net profit before provision for Federal income taxes		$ 24,884,734		$ 15,158,206
Provision for Federal Income Taxes:				
Normal income tax		8,950,000		4,063,800
Excess profits tax		None		None
Net profit (before deducting provision for possible decline in inventory prices)		$ 15,934,734		$ 11,094,406
Provision for Possible Decline in Inventory Prices (See page 2)		3,600,000		None
Balance transferred to earned surplus		$ 12,334,734		$ 11,094,406

(See Notes to Consolidated Financial Statements, page 12)

National Dairy Products Corporation

AND DOMESTIC SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED EARNED SURPLUS AND CAPITAL SURPLUS

	Year Ended December 31, 1941		Year Ended December 31, 1940	
EARNED SURPLUS				
Earned surplus, at beginning of year	$ 48,526,269		$ 45,525,465	
Balance per statements of consolidated profit and loss	12,334,734	$ 60,861,003	11,094,406	$ 56,619,871
Dividends paid:				
Preferred stocks—$7 per share (called for redemption on January 6, 1941)	None		$ 690,963	
Common stock—80c per share (20c per share quarterly)	$ 5,004,198	5,004,198	5,004,198	5,695,161
Balance		$ 55,856,805		$ 50,924,710
Deduct:				
Adjustments (net) in connection with refinancing (see previous published annual report)		None	$ 2,382,048	
Miscellaneous surplus charges		None	16,393	2,398,441
Foreign subsidiaries—				
Additions to reserve for foreign investments and advances	$ 715,929		$ 784,216	
Less—Dividends received	715,929	None	784,216	None
Earned surplus, at end of year, per balance sheets (See note 3)		$ 55,856,805		$ 48,526,269
CAPITAL SURPLUS				
Capital surplus, at beginning of year		$ 2,192,431		$ 3,870,215
Deduct:				
Excess of redemption price of preferred stock of a subsidiary company over the amount at which such stock was carried in the consolidated balance sheet	None		$ 1,465,805	
Goodwill purchased during year, written off	$ 37,386	37,386	211,979	1,677,784
Capital surplus, at end of year, per balance sheets		$ 2,155,045		$ 2,192,431

(See Notes to Consolidated Financial Statements, page 12)

National Dairy Products Corporation

AND DOMESTIC SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements—December 31, 1941

(1) Provision for depreciation charged to costs and expenses for the years 1941 and 1940 aggregated $8,703,879 and $8,601,106, respectively. Repairs and maintenance (including replacement of milk bottles) for such years amounted to $10,969,974 and $9,846,808.

(2) Effective March 1, 1941, National Dairy Products Corporation and its domestic subsidiaries adopted a "Retirement Annuity Plan", covered by a contract with John Hancock Mutual Life Insurance Company, which provides for the establishment of retirement annuities for eligible employees receiving fixed compensation exceeding $3,000 per annum. Employees of the companies electing to participate in the plan contribute currently with the companies toward the purchase of "Future Service Retirement Annuities", the companies' share of which is charged currently to costs and expenses as paid. The costs of all "Past Service Retirement Annuities" are to be contributed by the companies and are payable in instalments over a period estimated not to exceed twenty years. In the contract with the insurance company, however, the Corporation reserved the right to pay a full year's cost for past service annuities in advance in any year, and this right was exercised by the Corporation in 1941. The costs of past service retirement annuities are charged to profit and loss as paid. The Corporation estimates that the aggregate cost of such past service retirement annuities not purchased at December 31, 1941 would amount to approximately $4,900,000. The Corporation reserves the right to change or discontinue the plan at any time.

(3) The Indenture under which the funded debt of the Corporation is outstanding provides in substance that cash dividends may be paid only if thereafter (a) consolidated earned surplus exceeds $35,000,000 (which sum is subject to adjustment in certain circumstances, including a reduction of $500,000 for each reduction of $1,000,000 in consolidated funded indebtedness below $70,000,000), and (b) consolidated tangible assets after deducting consolidated liabilities other than consolidated funded indebtedness shall be equal to at least 1¾ times the consolidated funded indebtedness. Certain of the terms used are defined in the Indenture.

(4) All domestic subsidiary companies have been included in the accompanying financial statements except three minor companies in which a majority but not more than two-thirds of the capital stock is owned.

(5) Contingent liabilities in respect of pending lawsuits and other claims are not believed to involve the companies in any substantial liability not already provided for in the Consolidated Balance Sheet.

COMPTROLLER'S CERTIFICATE

The balance sheets set forth on pages 8 and 9 and the related statements of profit and loss and surplus shown on pages 10 and 11 have been prepared under my direction from the companies' books kept under my supervision and, to the best of my knowledge and belief, fairly state the consolidated position of National Dairy Products Corporation and consolidated domestic subsidiaries as of December 31, 1941, and December 31, 1940, and the operations for the years ended on such dates.

New York, N. Y.,
March 9, 1942

A. BOAG, Jr.
Comptroller.

Foreign Subsidiaries

(Foreign exchange in the countries named is subject to certain governmental restrictions)

The net sales and the Corporation's equity in net profits of its subsidiaries in Canada, England, Argentina and Australia for the year 1941, together with the Corporation's investments in and advances to such subsidiaries at December 31, 1941, are shown below. Financial statements pertaining to the operations of the continental European subsidiaries for 1941 are not available, but the Corporation's investments in and advances to such subsidiaries are shown. These continental European investments and advances have been written down to $1.

	NET SALES	EQUITY IN NET PROFITS	INVESTMENTS AND ADVANCES
Canada	$ 8,976,047	$181,015	$ 2,598,592
England	9,514,017	323,044	3,577,121
Argentina	260,231	14,085	276,723
	$18,750,295	$518,144	$ 6,452,436
Australia (75% owned)	£ 1,192,510	£ 42,785	$ 420,516
Germany, Netherlands and Belgium			386,909
Total investments and advances			$ 7,259,861
Less: Investments in and advances to subsidiaries in Germany, Netherlands and Belgium written down to $1			386,908
Investments in and advances to foreign subsidiaries per Consolidated Balance Sheet			$ 6,872,953
Less: Reserve for foreign investments and advances			1,899,419
Net amount per Consolidated Balance Sheet			$ 4,973,534

The net sales and net profits of the Canadian, English and Argentine subsidiaries have been translated into terms of U. S. dollars at the current rates of exchange at December 31, 1941.

During the year 1941, cash dividends were received from Canadian and English subsidiaries in the amounts of $306,055 and $409,874, respectively, and were added to the reserve account.

Summary of Source and Disposition of Cash Funds For Year Ending December 31, 1941

SOURCE OF CASH FUNDS

Net profit transferred to earned surplus			$12,334,734
Reserves provided for depreciation			8,703,879
Reserve provided for possible decline in inventory prices			3,600,000
Net receipts from liquidation of miscellaneous assets			1,983,938
Net increase in liabilities for accounts payable, sundry accruals, and Federal taxes			10,067,659
Net accruals to reserves for insurance, prior year's Federal income taxes, and general contingencies			1,003,588
Loans obtained			13,475,000
Total			$51,168,798

CASH FUNDS DISPOSED OF

Dividends on common stock	$ 5,004,198		
Purchase of property, plant and equipment	15,246,084		
Funded debt retired	2,050,000	$22,300,282	

CASH FUNDS RETAINED IN CURRENT ASSETS

Net increase in accounts and notes receivable	$ 9,216,157		
Increase in inventories	21,540,237		
Increase in cash surrender value of life insurance	12,523		
	$30,768,917		
Less—Decrease in cash	1,900,401		
Increase in current assets		28,868,516	
Total			$51,168,798

SEALTEST SYSTEM OF LABORATORY PROTECTION

Sealtest

NATIONAL DAIRY PRODUCTS CORPORATION

THE MARK OF SEALTEST-SUPERVISED PRODUCTS